



**TESTIMONY OF NORMAN A. NIELSEN ON BEHALF OF
THE INDEPENDENT INSURANCE AGENTS & BROKERS
OF AMERICA BEFORE THE HOUSE AGRICULTURE
COMMITTEE, SUBCOMMITTEE ON GENERAL FARM
COMMODITIES AND RISK MANAGEMENT REGARDING
THE FEDERAL CROP INSURANCE PROGRAM.**

May 4, 2005

**Good morning. Thank you Chairman Moran and Members of the
Committee for the opportunity to present the views and recommendations of
the Independent Insurance Agents & Brokers of America (IIABA) on the
Premium Reduction Plan and soybean rust. We appreciate the interest you
have shown in these issues, and the initiative you have taken by calling this
very important hearing.**

**My name is Norman (Norm) Nielsen, and I am President of Associated
Insurance Counselors, Inc. in Preston, Iowa. I am also the National
Chairman of IIABA's Crop Insurance Task Force. IIABA is the nation's
oldest and largest national trade association of independent insurance agents,
and represents a network of more than 300,000 agents and agency employees
nationwide. IIABA members are small businesses that offer customers a**

choice of policies from a variety of insurance companies. Independent agents offer all lines of insurance – property, casualty, life, health, employee benefit plans and retirement products.

Premium Reduction Plans

IIABA is a staunch opponent of the Premium Reduction Plan (PRP). This is not to say that we are against competition; to the contrary, we believe competition is healthy and provides an important checks-and-balance for our industry. However, PRPs actually undermine the competitive playing field by putting cost of service over quality of service. We also call into question the motives of the Risk Management Agency (RMA) when they approved one company to continue to offer a PRP after the Federal Crop Insurance Corporation (FCIC) Board passed a resolution suspending PRPs until a rulemaking process can be completed. The lack of foresight demonstrated by this decision created what is easily classified as a government –sponsored monopoly for the 2005 reinsurance year. If this is RMA’s idea of promoting competition in the industry, then the future looks very bleak for anyone involved in the delivery of this important risk management program, and I shutter to think of the impact it will have on America’s agriculture producers.

Mr. Chairman, IIABA believes that PRPs have absolutely no role in an industry that relies so heavily on the expertise of its agent network, and that the proliferation of this program will result in serious unintended consequences for our nation's farmers. Moreover, we believe that PRPs promote discrimination against limited resource farmers, as well as farmers in areas traditionally classified as high risk, which flies in the face of Congress's intent when they created the Federal Crop Insurance Program – to provide all eligible farmers in the United States with crop insurance. In order to understand why PRPs are bad for the Federal Crop Insurance Program, you need to understand the role the agent plays in the delivery system.

Unlike the property-casualty industry, a crop agent's responsibilities require a much more hands-on approach, which invariably increases the threshold for errors and omissions (E&O) exposure. On average, with advance meeting preparation, travel, and meeting time, an agent spends approximately 7 hours on a policy during the sales window alone. A transaction begins with the agent explaining production reporting and supporting record requirements to the farmer. He explains different date requirements by crop and by coverage for application, the actual production history (APH), the acreage report, the farmer's options and claims. He completes APH-related forms for the farmer, calculates preliminary yields,

reviews production early to determine if there is a revenue loss, reviews the APH form for completeness and accuracy, and forwards the signed form and any applicable worksheets to the company. The agent then must review approved APH from the company to ensure accuracy, explain approved APH yields to the farmer, and provide him with a copy. This is just the beginning. I haven't even discussed procedures for Preventive Planting, Yield Adjustment, Unit Division changes, Power of Attorney requirements, or any of the other technical policy provisions. Everything I have just listed goes into writing the policy – I haven't factored in what transpires should the farmer experience a loss. I charge RMA to show me a delivery system that reduces the role of the crop insurance agent without reducing the quality of service our nation's farmers have grown to expect for the last 25 years.

The Federal Crop Insurance Act, as amended, authorizes the FCIC to establish rules, limitations, and procedures for approving applications by insurance providers to reduce crop insurance premiums. To be eligible for the reduction, however, the Act requires that provider demonstrate that a true "efficiency" will be achieved, not merely that a cost has been cut below the expense reimbursement amounts established by the FCIC.

Unfortunately, the most realistic "efficiency" a company can realize is a reduction in the role of the agent in the delivery process, thereby confusing

cost-cutting with the efficiency required to be demonstrated under the Act. As a result, PRPs undermine the quality of the crop insurance delivery system, contrary to the standards established by Congress.

In 1980, Congress transitioned the federal crop insurance program from a program administered solely by federal employees to a private-sector/government partnership project. In mandating this transition, Congress recognized that “the sales talents and experience of the private sector commissioned agents . . . are essential to fulfilling the goal of nationwide, generally accepted all-risk insurance protection.” As a result of this demonstrated talent, Congress rested upon the agents' shoulders the “large burden of program delivery” and “providing full service to the client” including, but not limited to, sales. Independent agents, including IIABA members, have proved instrumental in achieving the program’s goal of helping farmers make well-informed risk assessments and choices about the coverage that they purchase. These agents are knowledgeable about the technicalities of the crop insurance program and skilled at assisting farmers with concerns that directly impact their coverage, such as unit structures and yield guarantee weaknesses. They also have the training and experience necessary to encourage participation of small, limited resource and minority producers, as required under the Standard Reinsurance Agreement (SRA).

Discrimination

Since approval of a pilot PRP in 2003, IIABA and its members have been concerned about the effect of such programs on the delivery system and preventing discrimination against small, limited resource and minority producers. In fact, The Board of Directors of the FCIC also cited these concerns in November 2004 when it denied all pending PRP applications for the 2005 Reinsurance Year and directed the RMA to proceed with notice and comment rulemaking on the adoption of procedures for approving PRPs. It is easy for RMA to admonish all forms of discrimination; in fact, there are a number of areas in the preamble of RMA's proposed rules where the Agency goes to great lengths to illustrate the prohibition against such behavior.

However, condemning discrimination and actually having the means to police it are completely different issues. Although the proposed rules provide that RMA may not approve PRPs that result in a reduction of services to policyholders or PRPs that are unfairly discriminatory, the rules contain no enforcement mechanism to prevent disruption to the balance of agents and services to policyholders in the current crop insurance delivery system or to detect and prevent covert discrimination against small, limited resource and minority producers. As mentioned previously, there remains one company that continues to offer a PRP in 2005. Unfortunately, we have seen and heard of wide-spread patterns of abuse and discrimination being practiced by this company, all happening under the watchful eye of RMA's Office of

Compliance. If this is occurring with only one company offering a PRP, it is simply unrealistic to expect RMA's current oversight infrastructure to properly monitor and regulate discriminatory practices, especially if the number of companies offering a PRP grows in the 2006 reinsurance year.

There are also forms of covert discrimination available for companies to employ. For example, the agent network for the delivery of PRP will undoubtedly be driven by the size of an agency's book of business. While an agent is required to offer all products offered by the company(s) for whom they write, the companies have the opportunity to decide which agents they wish to employ. Conventional wisdom dictates that the obvious litmus test for this decision-making process will be the size of the agency's book of business. Therefore, those whose book is comprised of accounts from smaller farming enterprises will be passed over for those with the larger, more profitable accounts. If RMA allows this to proceed, the end result will be cherry-picking by the companies to the detriment of small farmers. No agency can survive by servicing only small farmers. Therefore, if only the best and most profitable customers are skimmed off the top, the result will undermine the intent of the law that governs the crop insurance program, a program that is based on serving all farmers of all sizes, without discrimination against smaller farms.

In keeping with Congress's intent, independent agents currently assist producers, particularly small, limited resource and minority producers, with deadlines for reporting, screening information, quality control, risk assessment and determining the necessary amount of coverage. By doing so, agents then make up the difference by writing coverage for larger farming enterprises. If the proposed rules are implemented and additional PRPs are approved, many independent agents, who receive at most only fair compensation under the current delivery system, would likely stop delivering crop insurance. Companies would likely consolidate their business among a smaller workforce of agents. The smaller delivery system resulting from PRPs would be unable to provide the same amount of individualized service. As a result, Congress's goal of providing producer education through the crop insurance delivery system would be defeated and farmers would likely experience negative financial consequences from ill-informed risk assessment and coverage decisions.

Additional PRP Observations

When section 508(e)3 of the Federal Crop Insurance Act was established, its purpose was to create a vehicle for reducing the federal subsidy paid to the companies which offset policy costs to the farmer while at the same time, mandating that quality of service to the policyholder is not compromised. When RMA renegotiated the SRA in 2004, among other provisions was a

reduction in federal subsidies paid to the companies. Therefore, there is a degree to which RMA has already created the savings anticipated in 1994 when Congress passed section 508(e)3. Moreover, crop insurance companies have realized significant reductions in federal reimbursement over the last 11 years in addition to the cost-cutting provision in the new SRA. Therefore, the empirical evidence exists that the FCIP burden on the American taxpayer has continued to decline, while the quality of service to our nation's agriculture producers has remained static. This will not be the case under a PRP scenario. Proliferation of PRPs will be the equivalent of throwing the baby out with the bathwater, and will create numerous draconian consequences for an agriculture system our nation depends on.

Soybean Rust

Good farming practices are the hallmark of any successful agriculture enterprise. Farmers must demonstrate good farming practices to make certain that in the event of any natural occurrence such as soybean rust, they will be eligible for a payment based on the full amount of the loss. If the farmer fails to follow good farming practices, the farmer could be subject to a reduction in the indemnity due to him. Since soybean rust is an agriculture epidemic that very few farmers had previous knowledge of, several have taken advantage of the resources made available to them by Secretary

Johanns, such as USDA's interactive soybean rust web site and the overall national soybean rust plant disease surveillance and monitoring network.

Some circumstances, however, prohibit the farmer from exercising preventive measures regardless of how much forward-thinking he does, which ultimately places unnecessary burden on an already stressful situation. For example, in my home state of Iowa, a number of farmers are being told by the fungicide manufacturers that obtaining supply will not be a problem. However, given the seriousness of the soybean rust situation, supply does not always meet demand. To illustrate my point, when I have recommended to my clients that they should order and apply some preventive fungicide to their crops, often times the amount received is only a fraction of the amount they ordered. The most logical explanation is that the distributors are trying to curb any attempts by the farmers to stockpile unneeded chemicals for potential use in the future. Therefore, even if farmers follow developments as to the identification and spread of soybean rust disease and stay informed concerning appropriate treatments that may apply to their situation, that is not always enough.

As an agent I will take the appropriate steps to ensure that my clients are given the most up-to-date information from the companies, but ultimately, similar to the FDA's handling of the influenza outbreak in 2004, it is

incumbent upon the USDA to work in concert with the chemical manufacturers to guarantee availability.

Conclusion

Premium Reduction Plans are the wrong policy at the wrong time. Under PRPs, our nation's farmers are on the losing end, and the level and quality of service of their risk management will suffer. The access to available plans will be greatly reduced, and the knowledge and understanding of the system will be limited to those farmers who are willing and have the time to educate themselves on the complexities of crop insurance, while all the while servicing their farm on a full time basis. There are people at RMA who seem to think that "direct" insurance, similar to the delivery system employed by companies like USAA -- the United Services Automobile Association -- is a realistic scenario that can be applied to the crop insurance delivery system. I can assure you that after two decades on the front lines as a Main Street agent, that is an irrational and irresponsible conclusion and therefore lacks any merit whatsoever.

The insurance industry is too complex to speak in generalities, and I implore the Congress to repeal section 508(e)3 before it effectively dismantles the most successful public/private partnership our country has had in over 25 years. I

**thank the Committee for the opportunity to testify before you today, and I
would be pleased to entertain any questions you may have.**